

EAGLE MOUNTAIN CITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

EAGLE MOUNTAIN CITY

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Eagle Mountain City
Eagle Mountain, UT

December 15, 2005

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eagle Mountain City, Utah, as of and for the year ended June 30, 2005 which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Eagle Mountain City's Management. Our responsibility is to express opinions on these financial statements based on our audit.

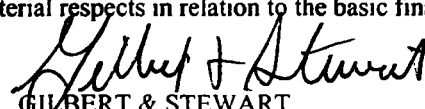
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Eagle Mountain City, as of June 30, 2005, and the respective changes in financial position and cash flows where applicable for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2005 on our consideration of Eagle Mountain City's internal control over financial reporting and on our test of its compliance with certain provisions, laws, regulations, contracts, and grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison as listed in the table of contents are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eagle Mountain City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Eagle Mountain, we offer readers of Eagle Mountain's financial statements this narrative overview and analysis of the financial activities of Eagle Mountain City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,270,176. Of this amount \$2,562,252 is reserved and must only be spent on projects for which the money is reserved. The remaining \$6,707,924 is divided as follows: \$1,064,002 is unreserved in the General Fund, and \$5,643,921 is unreserved in the Special Revenue (Special Assessment) and Non-major Governmental Funds.
- The total net assets of \$72,747,627 are made up of \$37,327,815 in capital assets net of related debt and \$35,419,812 in other net assets. Total net assets increased by \$1,589,578 from the prior year.
- In the Enterprise (Proprietary) Funds operating revenues increased by \$1,452,416 (18%). Corresponding operating expenses increased by \$1,445,429 (18.9%).
- The City completed construction of two new buildings in FY 2005: a Public Works Utility Building and a City Hall.

Reporting the City as a Whole

This discussion and analysis is intended to serve as an introduction to Eagle Mountain City's basic financial statements. Eagle Mountain City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Eagle Mountain City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Eagle Mountain City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Eagle Mountain City is improving or deteriorating. However, you will also need to consider other non-financial factors.

- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Eagle Mountain City that are principally supported by taxes and intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 8 & 9 of this report.

Reporting the City's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Eagle Mountain City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The governmental fund financial statements can be found on pages 10-13 of this report.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and certain Special Revenue Funds. The balance of the governmental funds is determined to be nonmajor and is included in the combined statements within this report.

- Proprietary funds – Eagle Mountain City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Eagle Mountain City uses enterprise funds to account for its Water Utility, Sewer Utility, Gas Utility, Electric Utility, Telecommunications Utility, and Garbage Collection.

The basic proprietary fund financial statements can be found on pages 14-16 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Eagle Mountain City, assets exceed liabilities by \$72,747,627.

One of the largest portion's of Eagle Mountain City's net assets (52%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets. Comparative figures for Fiscal Years 2004 and 2005 are shown.

Eagle Mountain City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current and other assets	\$ 32,891,854	\$ 29,051,527	\$ 13,456,444	\$ 11,718,491	\$ 46,348,298	\$ 40,770,018
Capital assets	39,365,798	39,387,902	47,352,006	48,681,875	86,717,804	88,069,777
Total assets	72,257,652	68,439,429	60,808,450	60,400,366	133,066,102	128,839,795
Long-term debt outstanding	25,710,576	20,876,611	32,555,000	32,005,000	58,265,576	52,881,611
Other liabilities	2,429,231	1,899,849	1,213,248	1,310,708	3,642,479	3,210,557
Total liabilities	28,139,807	22,776,460	33,768,248	33,315,708	61,908,055	56,092,168
Net assets:						
Invested in capital assets,						
Net of related debt	13,655,222	18,511,291	18,381,530	18,816,524	32,036,752	37,327,815
Restricted	2,266,229	2,562,252	900,666	2,262,127	3,166,895	4,824,379
Unrestricted	28,196,394	24,589,426	7,758,006	6,006,007	35,954,400	30,595,433
Total net assets	\$ 44,117,845	\$ 45,662,969	\$ 27,040,202	\$ 27,084,658	\$ 71,158,047	\$ 72,747,627

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Revenues:						
Program Revenues:						
Charges for services	\$ 3,827,635	\$ 3,453,004	\$ 9,369,229	\$ 10,496,527	\$ 13,196,864	\$ 13,949,531
Operating grants & contrib	194,168	209,081			194,168	209,081
Capital grants & contrib	867,711	3,985,979	519,836	423,145	1,387,547	4,409,124
General revenues:						
Property taxes	484,649	684,033			484,649	684,033
General sales & use tax	431,849	520,797			431,849	520,797
franchise tax	178,067	190,171			178,067	190,171
Other taxes	2,593				2,593	-
Other	10,666	22,437			10,666	22,437
Transfers		129,480		(129,480)	-	-
Total revenues	5,997,338	9,194,982	9,889,065	10,790,192	15,886,403	19,985,174
Expenses:						
General government	1,489,965	2,132,569			1,489,965	2,132,569
Public safety	716,645	962,991			716,645	962,991
Highways & public works	1,564,179	1,734,366			1,564,179	1,734,366
Community development	318,949	378,787			318,949	378,787
Planning	206,876	164,450			206,876	164,450
Interest on long-term debt	2,051,567	2,276,698			2,051,567	2,276,698
Water utility			1,465,620	1,443,035	1,465,620	1,443,035
Sewer utility			1,258,280	1,427,855	1,258,280	1,427,855
Electric utility			3,297,358	3,931,607	3,297,358	3,931,607
Gas utility			1,978,000	2,189,267	1,978,000	2,189,267
Telecommunication utility			1,613,133	1,713,883	1,613,133	1,713,883
Garbage				40,089	-	40,089
Total expenses	6,348,181	7,649,861	9,612,391	10,745,736	15,960,572	18,395,597
Increase (decr) in net assets	(350,843)	1,545,121	276,674	44,456	(74,169)	1,589,578
Net assets - beginning	44,468,689	44,117,847	26,763,528	27,040,202	71,232,217	71,158,049
Net assets - ending	\$ 44,117,846	\$ 45,662,968	\$ 27,040,202	\$ 27,084,658	\$ 71,158,048	\$ 72,747,627

Business-type activities. Business-type activities increased the City's net assets by \$44,456. As of the end of the current fiscal year, all of the City's business-type funds reported positive net assets.

Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$9,270,176. \$6,707,923 of this total amount (73%) constitutes unreserved fund balance, which is available for spending at the government's discretion. The majority of this unreserved fund balance is in the Special Revenue Funds. The

remainder of fund balance (\$2,562,252) is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,064,002, an increase of \$551,235 from Fiscal Year 2004. Total fund balance reached \$3,087,267, an increase of \$592,999 from the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 24% of total general fund expenditures, while total fund balance represents 69.7% of that same amount.

The City maintains enterprise funds to account for the business-type activities of the City. The information is found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the combined Enterprise funds at the end of the year amounted to \$6,006,007. The value of capital assets net of related debt in these same funds is \$18,816,524. As mentioned in the financial highlights, operational revenues and expenditures in the Enterprise funds increased by \$1,452,416 (18%) and \$1,445,429 (18.9%), respectively.

General Fund Budgetary Highlights

During the fiscal year, the General Fund's original budget was amended from an original budget expenditure total of \$3,572,475 to a final budget of \$3,992,475, an increase of \$420,000. The increase reflects higher than anticipated expenditures within the General Fund.

Capital Assets and Debt Administration

Capital Assets. Eagle Mountain City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$88,069,777 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress.

Eagle Mountain City's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Land	\$ 5,384,797	\$ 5,384,797	\$ 1,750,903	\$ 1,750,903	\$ 7,135,700	\$ 7,135,700
Buildings	748,388	729,696	1,476,907	4,029,481	2,225,295	4,759,177
Improvements	6,460	6,207			6,460	6,207
Equipment	304,338	307,389	44,091,519	42,901,491	44,395,857	43,208,880
Infrastructure	32,921,815	32,959,813			32,921,815	32,959,813
Construction in progress			32,677		32,677	-
Total net assets	<u>\$ 39,365,798</u>	<u>\$ 39,387,902</u>	<u>\$ 47,352,006</u>	<u>\$ 48,681,875</u>	<u>\$ 86,717,804</u>	<u>\$ 88,069,777</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the City had total bonded debt outstanding of \$52,852,000. Of this amount \$19,571,000 is from Special Assessment Bonds. The remaining \$33,281,000 is secured solely by specific revenue sources (i.e., revenue bonds).

**Eagle Mountain City's Outstanding Debt
General Obligation and Revenue Bonds**

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Special Assessment Bonds	\$ 25,607,000	\$ 19,571,000	\$ -	\$ -	\$ 25,607,000	\$ 19,571,000
Excise Tax Bonds		1,226,000				1,226,000
Capital Lease	103,576	79,611	-	-	103,576	79,611
Revenue Bonds	-	-	32,555,000	32,005,000	32,555,000	32,005,000
Total Bonds	<u>\$ 25,710,576</u>	<u>\$ 20,876,611</u>	<u>\$ 32,555,000</u>	<u>\$ 32,005,000</u>	<u>\$ 58,265,576</u>	<u>\$ 52,881,611</u>

The City's total outstanding debt decreased by \$5,383,965 during Fiscal Year 2005. This was a result of the refinancing of a Special Assessment Bond, an interim bond call for two of the Special Assessment Bonds, and the required debt service payments.

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value. The current limitations for the City are \$13,235,210, which is significantly in excess of the City's outstanding general obligation debt. In addition, state statutes allows for an additional 4% to be used for water, sewer, or other projects thus resulting in a debt limit of 8% of total taxable value. Total limitation is \$26,470,421, which again significantly exceeds the outstanding debt.

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

Economic Factors and Next Year's Budgets and Rates

- City of Eagle Mountain continues to experience high growth rates. Of the general fund revenues, 30% is derived from development activities. We anticipate that the growth rate will remain consistent for the coming fiscal year.
- The General Fund Expenditure budget for the fiscal year-ending June 30, 2006 reflects an increase of 28.5% over the final budget for fiscal year ending June 30, 2005.

Request For Information

This financial report is designed to provide a general overview of Eagle Mountain City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Eagle Mountain City, Finance Director, 1650 East Stagecoach Run, Eagle Mountain, UT 84043.

BASIC FINANCIAL STATEMENTS

EAGLE MOUNTAIN CITY

Statement of Net Assets

June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 3,496,029	\$ 1,884,150	\$ 5,380,179
Restricted Cash and Cash Equivalents	6,263,444	6,762,374	13,025,818
Accounts Receivable			
Customers (Net of Allowance)	62,982	1,318,429	1,381,411
Intergovernmental	24,860	-	24,860
Assessments Receivable	17,509,551	-	17,509,551
Taxes Receivable	712,916	-	712,916
Deferred bond cost - net	981,745	1,753,538	2,735,283
Capital assets (net of accumulated depreciation):			
Land	5,384,797	1,750,903	7,135,700
Buildings	729,696	4,029,481	4,759,177
Improvements	6,207	-	6,207
Equipment and Systems	307,389	42,901,491	43,208,880
Infrastructure	32,959,813	-	32,959,813
Total assets	<u>68,439,429</u>	<u>60,400,366</u>	<u>128,839,795</u>
LIABILITIES			
Accounts payable and accrued liabilities	443,153	696,719	1,139,872
Deposits	334,484	364,788	699,272
Deferred revenue	482,423	-	482,423
Compensated absences	91,468	93,616	185,084
Bond interest payable	548,321	155,585	703,906
Long Term Liabilities		-	
Due Within One Year	1,282,208	795,000	2,077,208
Due in More Than One Year	19,594,403	31,210,000	50,804,403
Total liabilities	<u>22,776,460</u>	<u>33,315,708</u>	<u>56,092,168</u>
NET ASSETS			
Invested in capital assets, net of related debt	18,511,291	18,816,524	37,327,815
Restricted			
C Roads	699,132	-	699,132
Impact Fees	1,863,120	2,262,127	4,125,247
Unrestricted	24,589,426	6,006,007	30,595,433
Total net assets	<u>\$ 45,662,969</u>	<u>\$ 27,084,658</u>	<u>\$ 72,747,627</u>

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY

Statement of Activities

For the Year Ended June 30, 2005

Function/Programs	Program Revenues			Net (Expense) Rev & Chgs in Net Assets		
	Expenses	Charges for		Governmental Activities	Primary Government	
		Services	Operating Grants and Contributions		Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 2,132,569	\$ 932,530	\$ -	\$ (1,200,039)	\$	\$ (1,200,039)
Public safety	962,991	92,945	152,510	(650,024)		(650,024)
Public Works	1,734,366	1,078,625	3,918,467	3,262,726		3,262,726
Community Development	378,787	26,152	-	(352,635)		(352,635)
Planning	164,450	1,322,752	56,571	1,214,873		1,214,873
Interest on long-term debt	2,276,698	-	-	(2,276,698)		(2,276,698)
Total governmental activities	7,649,861	3,453,004	209,081	(1,797)		(1,797)
Business-type activities:						
Water	1,443,035	2,039,868	-	-	1,019,978	1,019,978
Sewer	1,427,855	1,041,911	-	-	(385,944)	(385,944)
Electric	3,931,607	3,316,689	-	-	(614,918)	(614,918)
Gas	2,189,267	2,321,709	-	-	132,442	132,442
Telecom	1,713,883	1,710,414	-	-	(3,469)	(3,469)
Garbage	40,089	65,936	-	-	25,847	25,847
Total business-type activities	10,745,736	10,496,527	-	-	173,936	173,936
Total primary government	\$18,395,596	\$13,949,531	\$ 209,081	(1,797)	173,936	172,140
General revenues:						
Property taxes				\$ 684,033	\$ -	\$ 684,033
General sales and use tax				520,797	-	520,797
Franchise Taxes				190,171	-	190,171
Miscellaneous				22,437	-	22,437
Transfers				129,480	(129,480)	-
Total general revenues				1,546,918	(129,480)	1,417,438
Change in net assets				1,545,121	44,456	1,589,578
Net assets - beginning				44,117,847	27,040,202	71,158,049
Net assets - ending				\$45,662,969	\$ 27,084,658	\$ 72,747,627

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY**Balance Sheet****Governmental Funds**

For the Year Ended June 30, 2005

	General Fund	Special Revenue 98-1	Special Revenue 200-1	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,806,041	\$ -	\$ -	\$ 689,988	\$ 3,496,029
Restricted cash	-	1,677,522	3,753,189	832,733	6,263,444
Receivables (net):					
Accounts	62,982	-	-	-	62,982
Taxes	712,916	-	-	-	712,916
Intergovernmental	24,860	-	-	-	24,860
Special Assessments	-	5,637,000	9,523,551	2,349,000	17,509,551
Due from Other Funds	753,307	-	-	-	753,307
Total assets	<u>\$ 4,360,106</u>	<u>\$ 7,314,522</u>	<u>\$ 13,276,740</u>	<u>\$ 3,871,721</u>	<u>\$ 28,823,089</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable & accrued liabilities	\$ 425,937	\$ 67	\$ 14,655	\$ 2,495	\$ 443,154
Deposits	334,484	-	-	-	334,484
Due to other funds	-	313,294	143,880	296,133	753,307
Deferred revenue	512,418	5,637,000	9,523,551	2,349,000	18,021,969
Total liabilities	<u>1,272,839</u>	<u>5,950,361</u>	<u>9,682,086</u>	<u>2,647,628</u>	<u>19,552,914</u>
Fund Balances:					
Fund balances reserved for:					
Roads	699,132	-	-	-	699,132
Impact Fees	1,324,133	221,832	280,388	36,767	1,863,120
Debt Service	-	-	-	-	-
Unreserved, reported in:					
General Fund	1,064,002	-	-	-	1,064,002
Debt Service Fund	-	-	-	116,860	116,860
Capital Projects Fund	-	-	-	570,633	570,633
Special Revenue Funds	-	1,142,329	3,314,266	499,833	4,956,428
Total fund balances	<u>3,087,267</u>	<u>1,364,161</u>	<u>3,594,654</u>	<u>1,224,093</u>	<u>9,270,175</u>
Total liabilities & fund balances	<u>\$ 4,360,106</u>	<u>\$ 7,314,522</u>	<u>\$ 13,276,740</u>	<u>\$ 3,871,721</u>	<u>\$ 28,823,089</u>

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY

Balance Sheet Reconciliation to

Statement of Net Assets

June 30, 2005

Total fund balances - governmental fund types:	\$ 9,270,175
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	39,387,902
Long-term assets not available to pay for current period expenditures and, therefore, are deferred in the funds	17,539,546
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(20,534,654)
Net assets of government activities	<u>\$ 45,662,969</u>

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Special Revenue 98-1	Special Revenue 200-1	Nonmajor Governmental Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,368,415	\$ -	\$ -	\$ -	\$ 1,368,415
Special Assesments	-	1,557,867	1,465,162	776,106	3,799,135
Licenses and permits	1,330,391	-	-	-	1,330,391
Intergovernmental	614,413	-	-	-	614,413
Charges for services	1,043,987	-	-	-	1,043,987
Impact fees	619,007	67,465	186,351	443	873,266
Miscellaneous	171,727	28,713	50,612	33,315	284,367
Total revenues	<u>5,147,940</u>	<u>1,654,045</u>	<u>1,702,125</u>	<u>809,864</u>	<u>9,313,974</u>
EXPENDITURES					
Current:					
General government	1,996,693	26,275	66,014	14,140	2,103,122
Public safety	908,775	-	-	-	908,775
Public works	985,122	-	-	-	985,122
Planning and Zoning	183,079	-	-	-	183,079
Community Development	357,171	-	-	-	357,171
Debt service:					
Principal retirement	-	11,113,000	350,000	891,965	12,354,965
Interest and fiscal charges	-	1,140,419	985,038	244,161	2,369,618
Capital Outlay	-	-	100,058	715,028	815,086
Total expenditures	<u>4,430,840</u>	<u>12,279,694</u>	<u>1,501,110</u>	<u>1,865,294</u>	<u>20,076,938</u>
Excess revenues over (under) expenditures	<u>717,100</u>	<u>(10,625,649)</u>	<u>201,015</u>	<u>(1,055,430)</u>	<u>(10,762,964)</u>
Other financing sources (uses)					
Debt Proceeds	-	6,195,000	-	1,226,000	7,421,000
Operating Transfers In	133,000	-	-	253,581	386,581
Operating Transfers Out	(257,101)	-	-	-	(257,101)
Total other financing sources and uses	<u>(124,101)</u>	<u>6,195,000</u>	<u>-</u>	<u>1,479,581</u>	<u>7,550,480</u>
Excess of revs and other sources over (under) expend and other uses	<u>592,999</u>	<u>(4,430,649)</u>	<u>201,015</u>	<u>424,151</u>	<u>(3,212,484)</u>
Fund balances - beginning of year	<u>2,494,268</u>	<u>5,794,810</u>	<u>3,393,639</u>	<u>799,942</u>	<u>12,482,659</u>
Fund balances - end of year	<u>\$ 3,087,267</u>	<u>\$ 1,364,161</u>	<u>\$ 3,594,654</u>	<u>\$ 1,224,093</u>	<u>\$ 9,270,175</u>

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY
Statement of Changes Reconciliation to
Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ (3,212,484)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	22,104
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(248,472)
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The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	4,685,234
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	298,738
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Change in net assets of governmental activities	<u>\$ 1,545,121</u>
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EAGLE MOUNTAIN CITY
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise					
	Water	Sewer	Electric	Gas	Telecom	NonMajor Enterprise Fund Garbage
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 978,133	\$ 49,376	\$ 696,935	\$ -	\$ 159,706	\$ -
Accounts receivable - net	253,918	165,673	361,909	240,925	259,917	36,087
Due from other funds	803,983	-	-	-	-	-
Total current assets	2,036,034	215,049	1,058,844	240,925	419,623	36,087
Noncurrent assets:						
Restricted cash and cash equivalents	741,017	1,079,767	2,996,782	1,231,065	713,743	-
Land, equipment, buildings and improv.	14,879,659	12,333,851	19,304,015	5,873,107	7,430,640	-
Less: Accumulated depreciation	(2,365,887)	(2,196,454)	(3,384,117)	(1,394,913)	(1,798,024)	-
Deferred bond financing costs - net	195,415	451,725	594,648	349,237	162,513	-
Total noncurrent assets	13,450,204	11,668,889	19,511,328	6,058,496	6,508,872	-
Total assets	15,486,238	11,883,938	20,570,172	6,299,421	6,928,495	36,087
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	46,531	378,331	160,623	55,056	56,180	-
Bond Interest Payable	18,699	39,736	-	-	97,150	-
Due to Other Funds	-	-	-	793,743	-	10,240
Current portion of bonds payable	67,200	142,800	340,000	60,000	185,000	-
Total current liabilities	132,430	560,867	500,623	908,799	338,330	10,240
Noncurrent liabilities:						
Deposits	37,870	33,231	63,975	77,561	152,151	-
Compensated Absences	24,323	16,349	16,903	7,033	29,008	-
Bonds Payable	2,566,834	5,353,166	16,481,250	2,943,750	3,865,000	-
Total noncurrent liabilities	2,629,027	5,402,746	16,562,128	3,028,344	4,046,159	-
Total liabilities	2,761,457	5,963,613	17,062,751	3,937,143	4,384,489	10,240
Net Assets:						
Invested in capital assets, net of related debt	9,982,494	4,743,771	10,618	2,490,580	1,589,061	-
Restricted - Impact Fees	1,359,347	302,277	600,503	-	-	-
Unrestricted	1,382,940	874,277	2,896,300	(128,302)	954,945	25,847
Total net assets	\$ 12,724,781	\$ 5,920,325	\$ 3,507,421	\$ 2,362,278	\$ 2,544,006	\$ 25,847

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds					Nonmajor	Total
	Water	Sewer	Electric	Gas	Telecom	Enterprise Fund Garbage	
Operating revenues:							
Charges for Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,936	\$ 65,936
Charges for Services Pledged as Security on Revenue Bonds	1,354,214	968,957	3,009,693	2,303,815	1,611,122	-	9,247,801
Other Operating Income	-	-	3,557	602	91,255	-	95,414
Total operating revenues	1,354,214	968,957	3,013,250	2,304,417	1,702,377	65,936	9,409,151
Operating expenses:							
Salaries and wages	204,300	214,964	223,323	174,400	392,056	-	1,209,043
Purchased Services	528,985	420,356	2,178,885	1,538,618	525,926	40,089	5,232,859
Supplies and Materials	68,235	44,744	60,015	53,838	88,619	-	315,451
Depreciation and Amortization	486,659	421,903	772,687	297,860	359,684	-	2,338,793
Miscellaneous	2,106	1,295	2,545	1,127	8,183	-	15,256
Total operating expenses	1,290,285	1,103,262	3,237,455	2,065,843	1,374,468	40,089	9,111,402
Operating income	63,929	(134,305)	(224,205)	238,574	327,909	25,847	297,749
Nonoperating revenues (expenses):							
Interest revenue	27,869	6,210	62,702	17,292	8,037	-	122,110
Impact Fees	657,785	66,744	240,737	-	-	-	965,266
Interest expense and fiscal charges	(152,750)	(324,593)	(694,152)	(123,424)	(339,415)	-	(1,634,334)
Total nonoperating revenues (expenses)	532,904	(251,639)	(390,713)	(106,132)	(331,378)	-	(546,958)
Net Income (loss) before contributions and Transfers	596,833	(385,944)	(614,918)	132,442	(3,469)	25,847	(249,209)
Capital Contributions	423,145	-	-	-	-	-	423,145
Operating Transfers In	-	-	-	-	3,520	-	3,520
Operating Transfers out	(25,000)	(25,000)	(44,000)	(39,000)	-	-	(133,000)
Total Contributions and Transfers	398,145	(25,000)	(44,000)	(39,000)	3,520	-	293,665
Change in net assets	994,978	(410,944)	(658,918)	93,442	51	25,847	44,456
Total net assets - beginning	11,729,803	6,331,269	4,166,339	2,268,836	2,543,955	-	27,040,202
Total net assets - ending	\$ 12,724,781	\$ 5,920,325	\$ 3,507,421	\$ 2,362,278	\$ 2,544,006	\$ 25,847	\$ 27,084,658

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds						Total BTAs
	Water	Sewer	Electric	Gas	Telecom	Nonmajor Enterprise Fund Garbage	
Cash Flows From Operating Activities							
Receipts from customers	\$ 1,329,226	\$ 924,336	\$ 3,044,697	\$ 2,211,499	\$ 1,672,953	\$ -	\$ 9,182,711
Interfund Services	(163,000)	(203,000)	(260,000)	(195,000)	-	-	(821,000)
Payments to suppliers	(1,105,500)	(1,824)	(1,081,435)	(1,537,418)	(736,178)	-	(4,462,355)
Payments to employees	(181,920)	(411,839)	(212,177)	(168,583)	(371,803)	-	(1,346,322)
Net cash provided (used) by operating activities	(121,194)	307,673	1,491,085	310,498	564,972	-	2,553,034
Cash Flows From Noncapital Financing Activities							
Transfers In	-	-	-	-	3,520	-	3,520
Transfers Out	(25,000)	(25,000)	(44,000)	(39,000)	-	-	(133,000)
Net cash provided (used) by noncapital financing activities	(25,000)	(25,000)	(44,000)	(39,000)	3,520	-	(129,480)
Cash Flows From Capital and Related Financing Activities							
Purchases of capital assets	(667,693)	-	(2,437,817)	(473,594)	-	-	(3,579,104)
Impact Fees Collected	657,785	66,744	240,737	-	-	-	965,266
Developer Contributions	423,145	-	-	-	-	-	423,145
Principal paid on capital debt	(64,000)	(136,000)	(170,000)	(30,000)	(150,000)	-	(550,000)
Interest paid on capital debt	(153,009)	(325,144)	(694,152)	(123,424)	(346,335)	-	(1,642,064)
Net cash provided (used) by capital and related financing activities	196,228	(394,400)	(3,061,232)	(627,018)	(496,335)	-	(4,382,757)
Cash Flows From Investing Activities							
Interest and dividends received	27,867	6,210	62,702	17,292	8,037	-	122,108
Net increase (decrease) in cash and cash equivalents	77,901	(105,517)	(1,551,445)	(338,228)	80,194	-	(1,837,095)
Cash and cash equivalents - beginning	1,641,249	1,234,660	5,245,162	1,569,293	793,255	-	10,483,619
Cash and cash equivalents (deficit) - end	\$ 1,719,150	\$ 1,129,143	\$ 3,693,717	\$ 1,231,065	\$ 873,449	\$ -	\$ 8,646,524
Reconciliation of operating income to net cash provided (used) by operating activities:							
Operating income	63,929	(134,305)	(224,205)	238,574	327,909	25,847	297,749
Adjustments to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation expense	486,659	421,903	772,687	297,860	359,684	-	2,338,793
(Inc)/decrease in accounts rec.	(24,988)	(44,623)	35,004	(92,918)	(29,424)	(36,087)	(193,036)
(Inc)/decrease in prepaid expenses	-	-	1,124	1,126	-	-	2,250
(Inc)/decrease in due from other funds	(695,282)	-	917,600	-	-	-	222,318
(Inc)/decrease in Deferred bond costs	668	1,417	-	-	-	-	2,085
Increase (decr.) in accounts payable	23,211	159,705	(28,834)	(20,384)	(133,319)	-	379
Increase (decr) in Due to other funds	-	(108,701)	-	(123,857)	-	10,240	(222,318)
Increase (decr) in compensated absences	21,651	9,821	10,500	5,175	19,319	-	66,466
Increase (decr.) in deposits	2,958	2,456	7,209	4,922	20,803	-	38,348
Total adjustments	(185,123)	441,978	1,715,290	71,924	237,063	(25,847)	2,255,285
Net cash provided (used) by operating activities	\$ (121,194)	\$ 307,673	\$ 1,491,085	\$ 310,498	\$ 564,972	\$ -	\$ 2,553,034

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Eagle Mountain City (the City) conform to generally accepted accounting principles applicable to governmental units as promulgated by the American Institute of Certified Public Accountants (AICPA) and the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis—for State and Local Governments. Certain of the significant changes in the Statement include the following:

- The financial statements include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the city's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).

- A change in the fund financial statements to focus on the major funds.

A. Reporting Entity

Eagle Mountain City was incorporated December 1996, under laws of the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a five-member City Council. They are assisted by a City Administrator, who also is the City's budget officer. The treasurer is currently responsible for the financial matters of the City, including money management, accounts payable, financial statements, utility billing, and accounts receivable. The City provides the following services as mandated by law: Public Safety, Highways and Streets, Sanitation, Parks, Water, Public Improvements, Planning and Zoning, and General Administrative Services.

The General Purpose Financial Statements of the City include the financial statements for all activities of the City based upon the criteria set forth in Governmental Accounting Standards Board (GASB) Statement 14. The primary criteria for including a board or agency in this

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Reporting Entity (*Continued*)

report is financial accountability which determines whether an entity is a component unit of the financial reporting entity. Blended component units, although legally separate entities, are in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City. The City reports no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following **major governmental funds**:

The *general fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Special Improvement Districts Special Revenue Funds 98-1, 2001-1*, are used to account for the proceeds of specific revenue sources (other than expendable trusts, or capital projects) that are legally restricted to expenditures for specified purposes.

The government reports the following **major proprietary funds**:

The *water fund* accounts for the activities of the City's water operations.

The *sewer fund* accounts for the activities of the City's sewer operations.

The *electric fund* accounts for the activities of the City's electric operations.

The *gas fund* accounts for the activities of the City's gas operations.

The *telecommunications* accounts for the activities of the City's telecommunications operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statement. Exceptions to this general rule are payments to the general fund by the various enterprise funds for providing administrative services for such funds. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

D. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City's temporary cash investments consist of amounts deposited with Utah Public Treasurers' Investment Fund and money market funds. Investments are stated at cost, which approximates fair value.

E. Interfund Transactions

During the course of normal operations, the City has transactions between funds to distribute administrative costs and distribute grant proceeds. These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are to be expended. The General Fund billed the respective enterprise funds for administrative costs associated with billing and collection of utility charges.

F. Restricted Assets

The City maintains cash balances as required by bond covenants. These amounts are reflected in the financial statements as restricted cash. It is the City's policy to use restricted assets first and then unrestricted assets.

G. Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	30-50
Improvements other than buildings	20-50
Infrastructure	30-50
Machinery and equipment	5-10
Furniture and fixtures	5-10

H. Compensated Absences

City employees accrue earned vacation, sick leave, long term sick leave, and comp time throughout the year. They are allowed to carry forward into the next calendar year all accrued comp, long term sick leave, and up to 240 hours of vacation time. But are encouraged to take their vacation leave within the calendar year in which it is earned. Upon termination of employment, an employee will be compensated for up to 240 hours of unused vacation leave, comp time, long term sick leave but forfeits any accumulated sick leave.

Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it.

I. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st, and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes which are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

K. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of net assets are limited to outside third party restrictions. Appropriations of net assets are amounts that are specifically set aside for a particular expense in the following year. Designations of fund balance represent tentative management plans that are subject to change.

L. Memorandum Only - Total Columns

Total columns on the accompanying general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made in the aggregation of this data.

M. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

1. Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$46,518,127
Accumulated depreciation	<u>(7,130,225)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>)	<u>\$39,387,902</u>

2. Long-term assets:

Long-term assets applicable to the City's governmental activities are not available to pay for expenditures of the current period and are, therefore, deferred in the governmental balance sheet.

Special assessment revenue	\$17,513,430
Delinquent property taxes	<u>26,586</u>
	<u>\$17,540,016</u>

3. Long-term debt transactions:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Bonds and capital leases payable	(\$20,876,611)
Bond interest payable	(548,321)
Deferred bond costs	959,333
Compensated absences	(91,468)

Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	(\$20,557,067)
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B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital outlay	\$1,436,855
Depreciation expense	(1,414,751)

Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ 22,104
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Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Debt issued:	
Bonds Issued	(\$7,521,000)
Issuance cost amortization	(536,080)
Total Debt Incurred	(8,057,080)

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Principal Payments:	
Principal paid on bonds and capital leases	\$12,354,965
Bond Issuance Costs	<u>387,349</u>
Total Principal Payments	<u>12,742,314</u>

Net adjustment to increase <i>net changes in fund balances</i> –	
<i>Total governmental funds</i> to arrive at <i>changes in net</i>	
<i>Assets of governmental activities</i>	<u>\$4,685,234</u>

Another element of that reconciliation states that certain expenses reported in the statement of activities do not require the use of current financial resources and are, therefore, not reported as expenditures in the governmental funds.

Accrued bond interest	\$ 341,650
Compensated absences	<u>(42,912)</u>

Net adjustment to increase <i>net changes in fund balances</i> –	
<i>Total governmental funds</i> to arrive at <i>changes in net</i>	
<i>Assets of governmental activities</i>	<u>\$ 298,738</u>

NOTE 3 - BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City Administrator, authorized under state statute to be appointed budget officer, submits a proposed operating budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing, as required in (B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget using the above procedures.

NOTE 4 CASH

The City maintains a cash and investment pool that is available for use by all funds. At June 30, 2005 the City's cash balance consisted of the following:

Cash, Cash Equivalents, and Temporary Cash Investments	\$ 5,380,179
Cash, and Cash equivalents - Restricted	<u>13,025,818</u>
Total Cash and cash Equivalents	<u><u>\$ 18,405,997</u></u>

While the City's carrying amount of deposits was \$18,405,997 the balance in the City's bank account and cash on hand was \$18,520,184, with the difference being due to outstanding checks and deposits in transit.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

A. Deposits

Deposits – Custodial Credit Risk. Custodial risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act in handling its depository and investing transactions. The City considers the actions of the State Money Management Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, the City's custodial credit risk for deposits were as follows:

Depository Account	Custodial Credit Risk	Balance June 30, 2005
Checking and Savings	Insured and collateralized	\$ 109,701
Checking and Savings	Uninsured and uncollateralized	238,435
Investment Sweep	Uninsured and uncollateralized	<u>1,417,634</u>
Total Deposits		<u>\$ 1,765,770</u>

B. Investments

The City's investments are managed through participation in the State Public Treasurers' Investment Fund and through a trust arrangement with a local bank. As of June 30, 2005 the City had the following investments:

Investments	Investment Maturities (in Years)			
	Less Than 1	1-5	6-10	More than 10
Utah Public Treasurer's Investment Fund	\$ 4,556,560	\$ -	\$ -	\$ -
First American Treasury Obligations	12,197,854			
Total Investments	<u>\$16,754,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments – Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance with the Utah Money Management Act, which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Investments – Credit Risk. The City follows the requirements of the Utah Money Management Act in handling its Depository and investing transactions. The City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers Investment Fund (PTIF), certificates of Deposits, U.S. Treasury obligations, U.S. agency issues, restricted mutual funds, and obligations of governmental entities within the State of Utah. The City's investments are invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the investments. The degree of risk of the investments depends on the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices.

At June 30, 2005 the City had the following investments and quality ratings:

Investments	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Utah Public Treasurer's Investment Fund	\$ 4,556,560	\$ -	\$ -	\$ -	\$4,556,560
First American Treasury Obligations	12,197,854	12,197,854			-
Total Investments	<u>\$16,754,414</u>	<u>\$12,197,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,556,560</u>

Investments Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$4,556,560 investment in a trust arrangement, and the Utah State Treasurers Investment Pool, the entire amount of underlying securities are held by the Investment's counterparty, not in the City's name and are not insured. The City's investment arrangements primarily invest in Utah State Treasurers investment pool, obligations of the United States Treasury, agencies, or instrumentalities of the United States that meet the allowable investments of the Utah Money Management Act. The City does not have an investment policy for custodial credit risk.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	SID 98-1	SID 2001-1	Water	Sewer	Electric
Receivables:						
Accounts	\$ 62,982	\$ -	\$ -	\$ 258,918	\$ 170,673	\$ 366,909
Taxes	712,916					
Special						
Assessments		5,637,000	9,523,551			
Intergovernmental	24,860					
Less Allowance						
For uncollectible						
Accounts				(5,000)	(5,000)	(5,000)
	<u>\$ 800,758</u>	<u>\$ 5,637,000</u>	<u>\$ 9,523,551</u>	<u>\$ 253,918</u>	<u>\$ 165,673</u>	<u>\$ 361,909</u>

	Gas	Telecom	Nonmajor Enterprise Garbage	Non major Govt'l	Total
Receivables:					
Accounts	\$ 245,925	\$ 274,917	\$ 36,087	\$ -	\$ 1,416,411
Taxes					712,916
Special					-
Assessments				2,349,000	17,509,551
Intergovernmental					24,860
Less Allowance					-
For uncollectible					-
Accounts	(5,000)	(15,000)			(35,000)
	<u>\$ 240,925</u>	<u>\$ 259,917</u>	<u>\$ 36,087</u>	<u>\$ 2,349,000</u>	<u>\$ 19,628,738</u>

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 6 – INTERFUND RECEIVABLES

The composition of interfund balances as of June 30, 2005 are as follows:

<u>Fund</u>	<u>Receivable Amount</u>	<u>Payable Amount</u>
Enterprise Funds		
Water Fund	\$ 803,983	\$ -
Gas Fund		793,743
Garbage Fund		10,240
Special Revenue Fund		
SID 97-1 Fund		34,561
SID 98-1 Fund		313,294
SID 98-3 Fund		261,572
SID 2000-1 Fund		143,880
General Fund	<u>753,307</u>	
Total	<u>\$1,557,290</u>	<u>\$1,557,290</u>

Governmental funds report *deferred* revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (General Fund)	\$ 512,418	\$
Special Assessments (Special Revenue Fund)	<u>17,509,551</u>	
Total	<u>\$18,021,969</u>	<u>\$ 0</u>

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government	Beginning			Ending
Governmental activities:	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 5,384,797			\$ 5,384,797
Total capital assets not being depreciated	5,384,797		-	5,384,797
Capital assets being depreciated:				
Buildings	841,116			841,116
Improvements	7,600			7,600
Machinery and equipment	787,689	127,058		914,747
Infrastructure	38,060,070	1,309,797		39,369,867
Total capital assets being depreciated	39,696,475	1,436,855	-	41,133,330
Less accumulated depreciation for:				
Buildings	92,728	18,692		111,420
Improvements	1,140	253		1,393
Machinery and equipment	483,351	124,007		607,358
Infrastructure	5,138,255	1,271,799		6,410,054
Total accumulated depreciation	5,715,474	1,414,751		7,130,225
Total capital assets, being depreciated, net	33,981,001	22,104		34,003,105
Governmental activities capital assets, net	\$39,365,798	\$ 22,104	\$ -	\$39,387,902
Business-type activities:	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:	Balance			Balance
Construction in Progress	\$ 32,677		\$ 32,677	\$ -
Land	1,750,903			1,750,903
Total capital assets not being depreciated	1,783,580	-	-	1,750,903
Capital assets being depreciated:				
Buildings	1,612,741	2,813,641		4,426,382
Improvements				-
Machinery and equipment	52,845,845	798,140		53,643,985
Total capital assets being depreciated	54,458,586	3,611,781	-	58,070,367
Less accumulated depreciation for:				
Buildings	343,145	53,756		396,901
Improvements				-
Machinery and equipment	8,547,015	2,195,479		10,742,494
Total accumulated depreciation	8,890,160	2,249,235		11,139,395
Total capital assets, being depreciated, net	45,568,426	(1,451,095)		46,930,972
Business-type activities capital assets, net	\$ 47,352,006	\$ (1,362,546)	\$ 32,667	\$48,681,875

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 13,267
Public safety	98,492
Public Works	1,292,521
Planning	10,471
	<u>\$1,414,751</u>

Business-type activities:

Water	\$ 478,201
Sewer	402,227
Electric	744,144
Gas	281,096
Telecom	343,567
Total depreciation expense - Business-Type Activities	<u>\$2,249,235</u>

Total depreciation expense

\$3,663,986

NOTE 8 - LONG-TERM DEBT

Bonds and notes payable at June 30, 2005 are comprised of the following:

	July 1 2004	Additions	Reductions	June 30 2005	Due in One Yr
Governmental Activities:					
Bonds Payable:					
Excise tax road bonds	\$ -	\$ 1,226,000		\$ 1,226,000	\$ 104,000
Special Assessment bond 97-1	750,000	-	280,000	470,000	148,000
Special Assessment bond 98-1	10,455,000	-	10,455,000	-	-
Special Assessment bond 98-3	2,467,000	-	588,000	1,879,000	433,000
Special Assessment bond 2001-1	11,935,000	-	350,000	11,585,000	375,000
Special Assessment bond 2005A	-	6,295,000	658,000	5,637,000	197,000
Capital Lease	103,576	-	23,965	79,611	25,208
Compensated absences	48,556	42,912		91,468	91,468
Gov't Activities long-term Debt	<u>\$ 25,759,132</u>	<u>\$ 7,563,912</u>	<u>\$ 12,354,965</u>	<u>\$ 20,968,079</u>	<u>\$ 1,373,676</u>
Business Type Activities:					
Bonds Payable:					
Water and Sewer Revenue Bond	\$ 8,330,000	\$ -	\$ 200,000	\$ 8,130,000	\$ 210,000
Electric and Gas Revenue Bond	20,025,000	-	200,000	19,825,000	400,000
Telecommunication Revenue Bond	4,200,000	-	150,000	4,050,000	185,000
Gov't Activities long-term Debt	<u>\$ 32,555,000</u>	<u>\$ -</u>	<u>\$ 550,000</u>	<u>\$ 32,005,000</u>	<u>\$ 795,000</u>

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

1. **\$2,195,000 Eagle Mountain City Special Assessment Bonds Series 1997 (SID 97-1)**
 These bonds require annual installments of interest and principal due beginning December 15, 2001 through December 15, 2007, bearing interest ranging from 4.75% to 5.25%. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 148,000	\$ 27,730	\$ 175,730
2007	156,000	18,998	174,998
2008	166,000	9,794	175,794
Total	<u>\$ 470,000</u>	<u>\$ 56,522</u>	<u>\$ 526,522</u>

- \$5,090,000 Eagle Mountain City Special Assessment Bonds, Series 1998 (SID 98-3)**
 These bonds require annual installments of interest and principal due December 15, 2001 through December 15, 2008, bearing interest of 5.5%. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 433,000	\$ 103,345	\$ 536,345
2007	457,000	79,530	536,530
2008	481,000	54,395	535,395
2009	508,000	27,940	535,940
Total	<u>\$ 1,879,000</u>	<u>\$ 265,210</u>	<u>\$ 2,144,210</u>

3. **\$11,935,000 Eagle Mountain City Special Assessment Bonds, Series 2001 (SID 2000-1)** These bonds require annual installments of interest and principal due beginning February 1, 2002 through February 2021 bearing interest ranging from 8 - 8.25%. Debt service requirements to maturity are as follows:

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 375,000	\$ 955,238	\$ 1,330,238
2007	405,000	925,238	1,330,238
2008	435,000	892,838	1,327,838
2009	475,000	856,515	1,331,515
2010	515,000	816,853	1,331,853
2011-2015	3,275,000	3,372,188	6,647,188
2016-2020	4,875,000	1,777,875	6,652,875
2021-2025	1,230,000	101,475	1,331,475
Total	<u>\$ 11,585,000</u>	<u>\$ 9,698,220</u>	<u>\$ 21,283,220</u>

4. \$6,295,000 Eagle Mountain City Special Assessment Bonds Series 2005A (SID 98-1)

These bonds require annual installments of interest and principal due beginning May 1, 2006 through May 1, 2013 bearing interest of 6.25%. The debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 197,000	\$ 352,313	\$ 549,313
2007	645,000	340,000	985,000
2008	680,000	299,688	979,688
2009	725,000	257,188	982,188
2010	770,000	211,875	981,875
2011-2015	2,620,000	334,374	2,954,374
Total	<u>\$ 5,637,000</u>	<u>\$ 1,795,438</u>	<u>\$ 7,432,438</u>

5. 1,226,000 Eagle Mountain City Excise Tax Road Bonds Series 2005

These bonds require semiannual payments of interest and annual payments of Principal due September 1, 2005 through September 1, 2014, bearing interest ranging from 2.52 to 4.5%.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

The debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 104,000	\$ 45,879	\$ 149,879
2007	108,000	42,943	150,943
2008	111,000	39,448	150,448
2009	114,000	35,502	149,502
2010	119,000	31,137	150,137
2011-2015	670,000	76,046	746,046
Total	<u>\$ 1,226,000</u>	<u>\$ 270,955</u>	<u>\$ 1,496,955</u>

6. **\$8,700,000 Eagle Mountain City Water and Sewer Revenue Bonds Series 2000**
 These bonds require annual installments of interest and principal due beginning November 15, 2002 through November 15, 2026 bearing interest ranging from 5.6 to 6.0%. Debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 210,000	\$ 463,668	\$ 673,668
2007	220,000	452,755	672,755
2008	235,000	441,123	676,123
2009	245,000	428,731	673,731
2010	255,000	415,221	670,221
2011-2015	1,535,000	1,835,241	3,370,241
2016-2020	2,050,000	1,322,405	3,372,405
2021-2025	2,730,000	623,334	3,353,334
2026	650,000	19,500	669,500
Total	<u>\$ 8,130,000</u>	<u>\$ 6,001,978</u>	<u>\$ 14,131,978</u>

7. **\$20,825,000 Eagle Mountain City Gas and Electric Revenue Bonds Series 2001**
 These bonds require monthly installments of interest beginning June 1, 2001 through December 1, 2025, bearing a floating interest rate. The interest rate used for future requirements is the current industry rate of 1.27%. This interest rate is computed on a weekly basis and is subject to the market fluctuations. Principal portion will be due at maturity. Debt service requirements to maturity are as follows:

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 400,000	\$ 251,778	\$ 651,778
2007	400,000	246,698	646,698
2008	400,000	241,618	641,618
2009	500,000	236,538	736,538
2010	500,000	230,188	730,188
2011-2015	3,100,000	1,046,798	4,146,798
2016-2020	4,600,000	815,658	5,415,658
2021-2025	7,000,000	465,138	7,465,138
2026	2,925,000	37,148	2,962,148
Total	<u>\$ 19,825,000</u>	<u>\$ 3,571,562</u>	<u>\$ 23,396,562</u>

8. **\$4,400,000 Eagle Mountain City Telecommunications Revenue Bonds Series 2001**
 These bonds require semi-annual payments of interest and annual payments of principal beginning March of 2003 through September 2016, bearing interest of 8.25%. Debt Service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 185,000	\$ 326,494	\$ 511,494
2007	205,000	310,406	515,406
2008	220,000	292,875	512,875
2009	240,000	273,900	513,900
2010	255,000	253,481	508,481
2011-2015	1,640,000	897,600	2,537,600
2016-2020	1,305,000	127,256	1,432,256
Total	<u>\$ 4,050,000</u>	<u>\$ 2,482,012</u>	<u>\$ 6,532,012</u>

9. **Capital Leases Payable at June 30, 2005**

Eagle Mountain has entered into a lease agreement of \$168,614 for financing the acquisition of EMS Vehicle, Ambulance, and equipment. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005 are as follows:

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Assets acquired through capital leases are as follows:

Machinery & Equipment	\$167,569
Less: Accumulated Depreciation	(150,812)
	<u>\$ 16,757</u>

<u>Fiscal Year</u>	<u>Payment</u>
2006	29,336
2007	29,336
2008	<u>29,336</u>
Total Minimum Lease Payments	88,008
Less: Amount representing interest	(8,397)
Present Value of Minimum Lease Payments	<u>\$79,611</u>

10. Total debt service requirements of the City for all bonds and notes is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 2,077,208	\$ 2,530,571	\$ 4,607,779
2007	2,622,515	2,419,388	5,041,903
2008	2,755,889	2,273,224	5,029,113
2009	2,807,000	2,116,314	4,923,314
2010	2,414,000	1,958,754	4,372,754
2011-2015	12,840,000	7,562,245	20,402,245
2016-2020	12,830,000	4,043,194	16,873,194
2021-2025	10,960,000	1,189,947	12,149,947
2026	<u>3,575,000</u>	<u>56,648</u>	<u>3,631,648</u>
Total	<u>\$ 52,881,612</u>	<u>\$ 24,150,285</u>	<u>\$ 77,031,897</u>

NOTE 9 - EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended June 30, 2005, expenditures exceeded appropriations in the General Fund, Debt Service Fund, and Special Improvement District 98-1 by \$438,365 \$24,386 and \$256,257 respectively.

NOTE 10 - RESERVED FUND BALANCES

The City has reserved fund balances for unspent impact fees, debt service payments, unspent B&C road funds.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE 11 - LITIGATION

The City is a defendant in certain legal actions and pending actions, or in process for miscellaneous claims. The ultimate liability that might result from the final resolution of the above matters is not presently determinable. City management is of the opinion that the final outcome of the cases will not have an adverse material affect on the City's financial statements.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Utah Local Governments Trust which acts as a commercial insurer. The Association is obligated to pay all claims covered by its plan. All claims are subject to a \$5,000 deductible. The deductible is accrued as a current liability when the claim is incurred. The Utah Local Governments Trust covers claims up to \$10,000,000. The City has not incurred a claim in excess of its coverage for any of the past three fiscal years.

NOTE 13 - RETIREMENT PLAN

Plan Description. Eagle Mountain City contributes to the Local Governmental Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, Eagle Mountain City is required to contribute 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are approved by the Board as authorized by Chapter 49.

EAGLE MOUNTAIN CITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

Eagle Mountain City contributions to the Noncontributory Retirement System for June 30, 2005, 2004, and 2003, were \$186,045, \$141,124, and \$124,929 respectively. The contributions were equal to the required contributions for each year.

Eagle Mountain City contributions to the 401K Contribution System for June 30, 2005, 2004 and 2003 were \$25,583, \$17,139, and \$55,087 respectively.

NOTE 14 - SUBSEQUENT EVENTS

The City is currently in negotiations to sell the telecommunications system. The terms and conditions are not presently estimable.

The City is in the process of restructuring the Special Improvement District 2001-1 bonds. The restructure should be done in early 2006.

NOTE 15 - CONCENTRATIONS AND DEPENDENCIES

Of the general fund revenue, 30% is derived from development activities. Virtually all fees are collected from the master developers, Eagle Mountain Properties and The Ranches or builders working in conjunction with the master developers.

REQUIRED SUPPLEMENTAL INFORMATION

EAGLE MOUNTAIN CITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Totals	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 929,250	\$ 1,149,250	\$ 1,368,415	\$ 219,165
Licenses and Permits	1,029,400	1,029,400	1,330,391	300,991
Intergovernmental	540,000	540,000	614,413	74,413
Charges for Services	713,750	873,750	1,043,987	170,237
Impact Fees	-	-	619,007	619,007
Miscellaneous	169,100	169,100	171,727	2,627
Total Revenues	<u>3,381,500</u>	<u>3,761,500</u>	<u>5,147,940</u>	<u>1,386,440</u>
EXPENDITURES				
Current:				
General Government	1,395,323	1,735,323	1,996,693	(261,370)
Public Safety	901,242	921,242	908,775	12,467
Planning and Zoning	221,425	221,425	183,079	38,346
Public Works	743,951	763,951	985,122	(221,171)
Community Development	310,534	350,534	357,171	(6,637)
Debt Service	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>3,572,475</u>	<u>3,992,475</u>	<u>4,430,840</u>	<u>(438,365)</u>
Excess (deficit) of revenues over (under) expenditures	<u>(190,975)</u>	<u>(230,975)</u>	<u>717,100</u>	<u>948,075</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	147,000	147,000	133,000	(14,000)
Operating Transfers Out	-	-	(257,101)	(257,101)
Total Other Financing Sources (Uses)	<u>147,000</u>	<u>147,000</u>	<u>(124,101)</u>	<u>(271,101)</u>
Net Change in Fund Balance	(43,975)	(83,975)	592,999	676,974
Fund balances - beginning	2,494,268	2,494,268	2,494,268	-
Fund balances - ending	<u>\$ 2,450,293</u>	<u>\$ 2,410,293</u>	<u>\$ 3,087,267</u>	<u>\$ 676,974</u>

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
Special Improvement District 98-1
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Totals</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Special Assessments	\$ 1,523,437	\$ 1,524,000	\$ 1,557,867	\$ 33,867
Miscellaneous	30,000	30,000	28,713	(1,287)
Impact Fees	-	27,000	67,465	40,465
Total Revenues	<u>1,553,437</u>	<u>1,581,000</u>	<u>1,654,045</u>	<u>73,045</u>
EXPENDITURES				
General Government	0	0	26,275	(26,275)
Debt Service	<u>1,553,437</u>	<u>12,023,437</u>	<u>12,253,419</u>	<u>(229,982)</u>
Total Expenditures	<u>1,553,437</u>	<u>12,023,437</u>	<u>12,279,694</u>	<u>(256,257)</u>
Excess (deficit) of revenues over (under) expenditures	<u>-</u>	<u>(10,442,437)</u>	<u>(10,625,649)</u>	<u>(183,212)</u>
OTHER FINANCING SOURCES (USES)				
Debt Proceeds	<u>-</u>	<u>6,195,000</u>	<u>6,195,000</u>	<u>-</u>
Net Change in Fund Balance	-	(4,247,437)	(4,430,649)	(183,212)
Fund balances - beginning	<u>5,794,810</u>	<u>5,794,810</u>	<u>5,794,810</u>	<u>-</u>
Fund balances - ending	<u>\$ 5,794,810</u>	<u>\$ 1,547,373</u>	<u>\$ 1,364,161</u>	<u>\$ (183,212)</u>

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
Special Improvement District 2001-1
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Totals	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Special Assessments	\$ 1,303,328	\$ 1,303,328	\$ 1,465,162	\$ 161,834
Miscellaneous	30,000	30,000	186,351	156,351
Impact Fees	-	44,000	50,612	6,612
Total Revenues	<u>1,333,328</u>	<u>1,377,328</u>	<u>1,702,125</u>	<u>324,797</u>
EXPENDITURES				
Debt Service	1,333,328	1,333,328	1,335,038	(1,710)
General Government	-	48,800	66,014	(17,214)
Capital Outlay	-	129,000	100,058	28,942
Total Expenditures	<u>1,333,328</u>	<u>1,511,128</u>	<u>1,501,110</u>	<u>10,018</u>
Excess (deficit) of revenues over (under) expenditures	<u>-</u>	<u>(133,800)</u>	<u>201,015</u>	<u>334,815</u>
OTHER FINANCING SOURCES (USES)				
Net Change in Fund Balance	-	(133,800)	201,015	334,815
Fund balances - beginning	<u>3,393,639</u>	<u>3,393,639</u>	<u>3,393,639</u>	<u>-</u>
Fund balances - ending	<u>\$ 3,393,639</u>	<u>\$ 3,259,839</u>	<u>\$ 3,594,654</u>	<u>\$ 334,815</u>

See accompanying notes to the financial statements.

SUPPLEMENTAL INFORMATION

EAGLE MOUNTAIN CITY
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Debt Service Fund	Capital Projects Fund	Special Revenue 98-3	Special Revenue 97-1	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 116,860	\$ 573,128	\$ -	\$ -	\$ 689,988
Restricted cash	-	-	595,636	237,097	832,733
Receivables (net):					
Special Assessments			1,879,000	470,000	2,349,000
Total assets	<u>\$ 116,860</u>	<u>\$ 573,128</u>	<u>\$ 2,474,636</u>	<u>\$ 707,097</u>	<u>\$ 3,871,721</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable & accrued liab	\$ -	\$ 2,495	\$ -	\$ -	\$ 2,495
Due to other funds	-	-	261,572	34,561	296,133
Deferred revenue	-	-	1,879,000	470,000	2,349,000
Total liabilities	<u>-</u>	<u>2,495</u>	<u>2,140,572</u>	<u>504,561</u>	<u>2,647,628</u>
Fund Balances:					
Fund balances reserved for:					
Impact Fees	-	-	34,993	1,774	36,767
Unreserved, reported in:					
Debt Service Fund	116,860	-	-	-	116,860
Capital Projects Fund	-	570,633	-	-	570,633
Special Revenue Funds	-	-	299,071	200,762	499,833
Total fund balances	<u>116,860</u>	<u>570,633</u>	<u>334,064</u>	<u>202,536</u>	<u>1,224,093</u>
Total liabilities & fund balances	<u>\$ 116,860</u>	<u>\$ 573,128</u>	<u>\$ 2,474,636</u>	<u>\$ 707,097</u>	<u>\$ 3,871,721</u>

See accompanying notes to the financial statements.

EAGLE MOUNTAIN CITY
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Debt Service Fund	Capital Projects Fund	Special Revenue 98-3	Special Revenue 97-1	Total Nonmajor Governmental Funds
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special Assessments	-	-	592,920	183,186	776,106
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Impact fees	-	-	443	-	443
Misc	-	14,724	13,002	5,589	33,315
Total revenues	-	14,724	606,365	188,775	809,864
EXPENDITURES					
Current:					
General government	-	13,613	38	489	14,140
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Planning and Zoning	-	-	-	-	-
Community Development	-	-	-	-	-
Debt service:					
Principal retirement	23,965	0	588,000	280,000	891,965
Interest and fiscal charges	29,756	24,450	144,673	45,282	244,161
Capital Outlay	0	715,028	-	-	715,028
Total expenditures	53,721	753,091	732,711	325,771	1,865,294
Excess revenues over (under) expenditures	(53,721)	(738,367)	(126,346)	(136,996)	(1,055,430)
Other financing sources (uses)					
Debt Proceeds	-	1,226,000	-	-	1,226,000
Operating Transfers In	170,581	83,000	-	-	253,581
Operating Transfers Out	-	-	-	-	-
Total other financing sources and uses	170,581	1,309,000	-	-	1,479,581
Excess of revs and other sources over (under) expend and other uses	116,860	570,633	(126,346)	(136,996)	424,151
Fund balances - beginning of year	-	-	460,410	339,532	799,942
Fund balances - end of year	\$ 116,860	\$ 570,633	\$ 334,064	\$ 202,536	\$ 1,224,093

See accompanying notes to the financial statements.

GOVERNMENT AUDITING STANDARDS REPORT
UTAH STATE COMPLIANCE REPORT

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
Eagle Mountain City
Eagle Mountain, UT

December 15, 2005

We have audited the financial statements of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of Eagle Mountain City as of and for the year ended June 30, 2005, and have issued our report thereon dated December 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

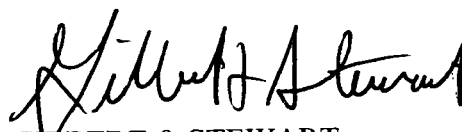
In planning and performing our audit, we considered Eagle Mountain City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Eagle Mountain City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-1 to 2005-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eagle Mountain City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of

laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Eagle Mountain City in a separate letter dated December 15, 2005.

This report is intended solely for the information and use of management, Utah State Auditor and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants

EAGLE MOUNTAIN CITY
SCHEDULE OF FINDINGS
JUNE 30, 2005

Reportable Conditions:

2005-1 - Reconciliation of certain detail schedules to General Ledger

Condition: We noted that certain detailed schedules (impact fees and deposits) did not tie to corresponding general ledger accounts.

Cause: This condition was a result of lack of reconciliation and adjustment and lack of knowledge of the software.

Criteria: Detail schedules must be reconciled monthly to ensure general ledger accounts tie to detail.

Effect: General ledger accounts differ from detailed schedules and produce inaccurate amounts on the City's financial statements.

Recommendation: We recommend that the City continue to improve monthly reconciliations of detail schedules to corresponding general ledger accounts.

2005-2 - Overall System Design and Operation

Condition: The City's accounting information system design and operation are not adequate to provide timely and accurate financial information.

Cause: The condition was caused by a combination of explosive growth, lack of knowledge of the system design, and inadequate numbers of accounting personnel.

Criteria: The accounting information system must be designed and followed by sufficient personnel to provide timely and accurate information to properly manage the City.

Effect: The City's accounting system does not provide timely or accurate financial information.

Recommendation: Although the City has taken great strides in the correction of the system design, we recommend that the City continue to improve on providing timely and accurate financial information by hiring additional personnel as needed, and continued effort in refining the accounting information system design.

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**INDEPENDENT AUDITOR'S REPORT ON
LEGAL COMPLIANCE WITH APPLICABLE
UTAH STATE LAWS AND REGULATIONS**

Honorable Mayor and City Council
Eagle Mountain City
Eagle Mountain, UT

December 15, 2005

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the remaining fund information of Eagle Mountain City for the year ended June 30, 2005, and have issued our report thereon dated December 15, 2005. As part of our audit, we have audited Eagle Mountain City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

Class "C" Road Funds (Department of Transportation)
Liquor Funds (Utah State Tax Commission)

The City also received no nonmajor grants during the year.

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Asset Forfeitures

Liquor Law Enforcement
B & C Road Funds
Other Compliance Requirements
Department of Commerce - Building Permits
Impact Fees

The management of Eagle Mountain City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Eagle Mountain City complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2005.

This report is intended solely for the information and use of management, Utah State Auditor, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

**EAGLE MOUNTAIN CITY
MANAGEMENT LETTER**

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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December 15, 2005

Honorable Mayor and City Council
Eagle Mountain City
South Jordan, UT

We have audited the financial statements of Eagle Mountain City for the year ended June 30, 2005 and have issued our report thereon dated December 15, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated November 15, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Eagle Mountain City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Eagle Mountain City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

This letter is issued as required by Statement on Auditing Standards No. 61, "Communications with audit committees", which requires auditors to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for the oversight of the financial reporting process.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the

appropriateness of accounting policies and their application. The significant accounting policies used by Eagle Mountain City are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Eagle Mountain City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Eagle Mountain City's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors.

However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

The following matters are items noticed during our audit which related to Utah State compliance issues:

Utah State Legal Compliance Findings - Current Year:

05-1 General Compliance – Cash Management

Finding: Utah State Law requires Cities to deposit funds within three days of receipt. During the course of our audit we noted that funds are not being deposited within the three day period.

Recommendation: We recommend that the City deposit funds within the time specified by state law.

City's Response: We concur with the auditor's recommendations and will make the deposits within the required time frame.

05-2 General Compliance - Budgetary Compliance

Finding: Utah State law prohibits the City from incurring expenditures in excess of those budgeted. We noted the City had expenditures in excess of appropriations as follows:

		<u>General Fund</u>	
SID 98-1	\$ 256,257	General Government	\$261,370
Debt Service Fund	24,386	Community Development	6,637
		Public Works	221,171

Recommendation: We recommend that the City monitor and make adjustments via a public hearing during and at the end of the year to adjust budgets to be in compliance with the law.

City's Response: We concur with the finding and will make proper budget adjustments.

05-3 General Compliance - Fund Balance

Finding: Utah State law states that the maximum unreserved fund balance of the general fund cannot exceed 18% of the estimated total revenue of the general fund.

Recommendation: We recommend that the City make necessary transfers to bring the fund balance into compliance with state law.

City's Response: We concur with the auditors recommendations and will make the necessary adjustments.

05-4 General Compliance - Impact Fees

Finding: Impact Fee laws require that impact-fee-charging political subdivisions annually prepare a report of impact fees collected and spent. This report must show the source and amount of all monies collected, earned, and each expenditure from the fund or account. The City did not prepare the annual report. Also the City must deposit the money into a interest bearing account and retain the interest earned.

Recommendation: We recommend that the City prepare the required reports, and retain interest earned on deposited funds.

City's Response: We concur with the auditors recommendations and will make the necessary adjustments to be in compliance with state law.

Utah State Legal Compliance Findings - Prior Year:

04-1 General Compliance - Budgetary Compliance

Finding: Utah State law prohibits the City from incurring expenditures in excess of those budgeted. We noted the City had expenditures in excess of appropriations as follows:

		<u>General Fund</u>	
SID 98-1	\$ 2,956	General Government	\$158,087
SID 2001-1	763,600	Community Development	12,749
		Planning & Zoning	12,590

Current Status: See current year findings 05-2

04-2 Impact Fees - Accounting

Finding: Impact Fee laws require that impact-fee-charging political subdivisions annually prepare a report of impact fees collected and spent. This report must show the source and amount of all monies collected, earned, and each expenditure from the fund or account. The City did not prepare the annual report. Also the city must deposit money in a interest bearing account and retain interest earned.

Current Status: The City is in compliance with the Utah State Compliance requirements.

Other Matters for Consideration

1. We noted during our audit that several accounting related schedules and reconciliations were not completed on a timely basis. We feel the cause of this was the large expansion of operations and size of the City. The City simply outgrew the number of accounting personnel that it needed. We recommend that the City perform monthly reconciliations to

ensure supporting schedules and financial statements are in balance. We also recommend that the City review the needs for additional personnel in accounting and related functions to help ensure that the City's accounting records are maintained in a timely manner.

2. We noted during the course of our audit certain Enterprise Funds have created net losses. We recommend that the City take an in-depth look at ways to increase profitability of the Enterprise funds, whether by increasing rates, expanding operations, or reducing costs. Unless these funds are made profitable, it will become increasingly more difficult to repay their future financial commitments including long-term debt requirements.
3. This list of recommendations does not include items that may be reportable conditions or material weaknesses in the internal control structure. Please refer to our report and schedule of findings accompanying the general purpose financial statements.

We wish to express our appreciation to the city personnel for the friendly and enthusiastic help extended to us during the course of our examination.

This information is intended solely for the use of the City Council and Management and should not be used for any other purpose. If you have any questions concerning the above items, we will be happy to discuss them with you.

Sincerely,

GILBERT & STEWART
Certified Public Accountants

**CITY OF EAGLE MOUNTAIN RESPONSE TO UTAH STATE LEGAL
COMPLIANCE FINDINGS FISCAL YEAR 2005**

Finding 05-1 General Compliance Cash Management

The City has already taken the appropriate steps to correct this issue. All Departments that receipt funds have been notified that these funds must be deposited within the three day timeline. The person responsible for ensuring compliance is the Treasurer, Gordon Burt. The Finance Department, under the direction of Gordon Burt, will monitor the cash receipting of all departments on a regular basis to see that this rule is being followed. The completion date for this compliance is February 1, 2006.

Finding 05-2 General Compliance - Budgetary Compliance

The City will continue to review revenues and expenditures monthly and compare to budgets. The City will have at least two public budget hearings between March 1 and June 30, 2006 to make the necessary budget adjustments. The persons responsible for compliance are Chris Hillman, City Administrator, and Gordon Burt, Treasurer. Anticipated completion date is June 30, 2006.

Finding 05-3 General Compliance – Fund Balance

The City is excited that its General Fund Balance exceeds the maximum allowed by Utah State law. This indicates that the City of Eagle Mountain's finances are positive. However, to be in compliance with State law, the City will transfer the excess portion of the fund balance to appropriate funds by June 30, 2006. Chris Hillman, City Administrator, will be responsible for this transfer.

Finding 05-4 General Compliance – Impact Fees

To address this compliance issue, City staff has already implemented a more thorough and detailed recording of the impact fees received through our accounting software. Staff will now focus on impact fee expenditures through coordination with the Departments responsible for approving the expenditures and the Finance Department which is responsible for paying the expenditures. Working together, staff will generate the required annual report. The person responsible for ensuring compliance is the Treasurer, Gordon Burt. The City anticipates being in compliance by June 30, 2006.

REPORTABLE CONDITIONS

2005-1 Reconciliation of certain detail schedules to General Ledger

Appropriate City staff has been assigned to complete monthly reconciliations of the schedules listed. Staff is endeavoring to complete monthly reconciliations on all General Ledger accounts. The person responsible to ensure compliance is Gordon Burt, the City Treasurer. The City anticipates being compliant by June 30, 2006.

2005-2 Overall System Design and Operation

As mentioned in the audited reports, the City has taken great strides in the correction of the system design. Our accounting system has great potential and is more than adequate to handle the reporting that needs to take place. Many City staff have been trained in the operation of the system as it relates to their particular responsibilities. More training is needed. More personnel are needed in various departments. Each department is responsible to see that staff is trained adequately in its duties. As a new budget year is approaching, each department is requesting additional staff and training to handle an ever-increasing workload. The persons responsible for this area of compliance are the Department Managers in conjunction with the Mayor and City Administrator. All budgets are dependent upon available funding. The City will endeavor to be in compliance with this requirement in Fiscal Year 2007, or beyond if finances do not permit the hiring of additional staff and further training of all staff.